MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

SUPPLEMENTARY EXAMINATION

TRIMESTER 1, 2015/2016

BLE2074 – LABOUR ECONOMICS

(All Sections/Groups)

18 NOV 2015
9.00 AM – 11.00 AM
(2 HOURS)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TWO (2)** printed pages with **FIVE (5)** structured questions.
2. Answer only **FOUR (4)** structured questions.
3. Marks are shown at the end of each question.

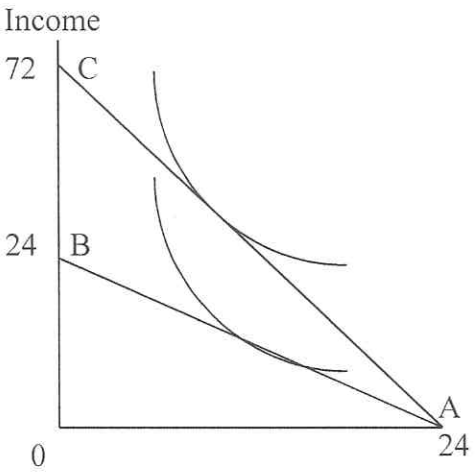
ANSWER ONLY FOUR STRUCTURED QUESTIONS (100 Marks)

Question 1

(a) Suppose the wage rises as shown by the budget line AC in Figure 1. Is this person on the upward sloping or backward-bending portion of his/her labour supply curve? Explain.

(5 marks)

Figure 1



(b) "The labour supply curve shows that the substitution effect dominates at higher wage rates whereas the income effect dominates at lower wage rates." Do you agree? Draw the labour supply curve and explain your answer.

(10 marks)

(c) Define the reservation wage. List and explain three factors that lead one not to participate in the labour force.

(10 marks)

(Total: 25 marks)

Question 2

Explain in terms of income and substitution effects how the Becker's Model of the Allocation of Time differs from the Work-Leisure Decision Model.

(Total: 25 marks)

Continued...

Question 3

(a) "Compensating wage differentials cause the wage rates to move toward equality." Comment on this statement.

(5 marks)

(b) Discuss four sources of compensating wage differentials.

(12 marks)

(c) Suppose workers are well informed about the dangers inherent in any job and are mobile enough to avoid risks they do not wish to take. Explain what will happen to the risk loving workers if the government mandates the reduction of risk in a market?

(8 marks)
(Total: 25 marks)

Question 4

(a) Explain the difference between the taste discrimination and statistical discrimination models.

(10 marks)

(b) "According to Becker's discrimination model, in the long run, the operation of the competitive market will resolve the problem of discrimination." Do you agree? Explain your answer.

(10 marks)

(c) Explain two non-discriminatory factors that lead to the wage gap between genders.

(5 marks)
(Total: 25 marks)

Question 5

(a) Use the concepts of output effect and substitution effect to assess the impact of a wage rate decline on the labour demand curve. Explain using an appropriate diagram.

(15 marks)

(b) "The greater the price elasticity of product demand, the greater will be the elasticity of labour demand". Do you agree? Discuss.

(5 marks)

(c) "The smaller the proportion of total production costs accounted for by labour, the greater will be the elasticity of demand for labour". Do you agree? Discuss.

(5 marks)
(Total: 25 marks)
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